National City Monthly Letter
on
Business and Economic Conditions

1954

New York, July, 1954

General Business Conditions

TRADE and industrial reports have shown further mild improvement in June, confirming the turn for the better that took place in the early spring. The gains during the past three months have been on the whole slight, but they have been reassuring, and the general feeling about the fall prospect is one of confidence. For the first time since last July, the Federal Reserve Board's index of industrial production rose in May and reached 125 (1947-49=100), two points above the March-April low. This takes the index back to the level of last January. The increase was not concentrated in a few lines, but was fairly broad, the main exceptions being defense work and petroleum refining. Output of major consumers' durable goods in the aggregate has risen 14 per cent from its December low.

The general cause of industrial improvement is found in the fact that during the 14-point decline in output, from July 1953 to the March-April low, consumption was relatively sustained, and a gap between consumption and production was opened. The measure of the gap is the reduction of business inventories, which during the second quarter was running at an estimated rate of some $5½ billion a year. Another gap, even wider, appeared between manufacturers' shipments and new orders. The measure of this gap was a drop in ten months of $22 billion in unfilled orders. In varying degree, the industries have been producing less than was consumed and buying less than they were using up.

To this process there must sometime be an end. Inventory liquidation continues, and in automobiles and a good many other lines must go further. But buyers have been coming back into the markets. Even though commitments are still kept short, new orders have increased. The pressure for curtailment in industrial operations has lightened. At the same time defense orders are being stepped up, in order to maintain desired delivery rates, after a long period of holding back.

Retail Sales Better

Hot weather has uncovered a strong demand for summer apparel, and June retail sales, when the figures are in, are likely to show improvement over May. Since April was a good month, the second quarter as a whole will turn in better figures than the first quarter. Department store sales around the middle of June began to run ahead of a year ago, after several weeks of unfavorable comparisons. Automobile sales also have been a little better than expected during June.

These trade reports emphasize again the extent to which ability and willingness to buy have been supported by tax reduction, the accumulation of personal savings, financial liquidity, credit ease, and the various elements sustaining consumer income, such as unemployment compensation, pension payments, price supports and the like. During most of the recession consump-

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tion has held close to the peak levels. Concurrently other strong forces have been at work in various directions. Machinery manufacturers have not been immune from recession, but the aggregate of capital investment holds up remarkably under the stimulus of population growth, technological progress, need to modernize to cut costs, financial strength, and faith in the future. Home construction has responded to growing families, population migration, easier payment terms and abundant mortgage money.

The fear of a downward spiral was based on reasoning that consumption must follow production downward, due to lessened employment, that a drop in income meant a drop in sales, and so around the circle. But this reasoning took insufficient account of the supporting influences. Sustained consumption has broken the spiral, checked the decline, and provided a point of stabilization around which the industries are rallying.

The support given to the economy by construction activity continuously exceeds expectations. May contract awards, as reported by F. W. Dodge Corporation for 37 Eastern states, were 20 per cent over last year. The U.S. Departments of Commerce and Labor now estimate that construction expenditures will total $36 billion in 1954, a 2 per cent rise over 1953. Last November these same agencies expected a 2 per cent decline this year. Home building, while running high, is not primarily responsible for the rise; the value of residential building in the first five months of 1954 barely equalled the same period of last year, while nonresidential construction was 3 per cent higher. However, some of the gains in the latter are traceable to active home building in previous years and reflect the need for supplying the new homes with schools, stores, highways and public works. Nor will this pressure slacken soon. For 1954 as a whole, the Department of Labor estimates that 1,080,000 new private dwelling units will be started, a total second only to 1950.

Elements in the Outlook

Confidence in the outlook for the second half year rests on expectation of continuing high consumption; on assurance of an abundant supply of money and credit, which has been strengthened by the action of the Federal Reserve Board reducing member bank reserve requirements; and, thirdly, on the belief that inventories of certain goods, notably manufacturers' stocks of purchased materials, have been reduced to a point where buyers must be steadily in the markets even while further reduction of finished goods stocks takes place. These factors may be expected to support business, in the future as in the past.

To bring about a strong recovery, however, forces more dynamic than the foregoing would have to appear. A pronounced revival of inventory accumulation would be such a force, but few business men are now of a mind to build up stocks, and with supplies and productive capacity abundant only a war scare or the equivalent is likely to change their attitude. An increase in business plant and equipment expenditures would have an expansive effect, but these expenditures, while still near the largest in our history, show a moderate downward tendency. A further rise in construction, on top of the level already described, can hardly be expected. Defense contract awards are rising, as they must if deliveries are to be kept coming, but the net effect is more to sustain than to stimulate afresh.

Moreover, certain drags on recovery are apparent. With the sizable stocks now in dealers' hands the automobile industry is unlikely to contribute much to a second half year upturn. Agricultural prices have been on the downgrade again. Prices of farm products dropped 6 per cent between May 18 and June 15. Some decline often occurs at this time of the year as new crops start coming to market, but this drop was unseasonably sharp.

With prices of manufactured goods steady, the so-called farm "parity ratio" for the month of June was the lowest since March 1941. This signifies some further decline in farm purchasing power. To get the markets for the surplus farm products back into shape without a decline in farm purchasing power would, in fact, be impossible. Either prices must fall or production be cut. Whether the decline in output is accomplished by compulsory acreage curtailment, voluntary adjustments, or crop disaster, the effect on farm income is inescapable. Those industries which sell chiefly to the farmer must particularly feel the general pressure to cut costs and selling prices.

These elements in the outlook supply warnings against expecting too much too soon. But the reasons for confidence are genuine and impressive. As compared with mid-year in 1953, lower stocks of goods, easier money, and gains in efficiency and productivity constitute a stronger basis for business in the months ahead. For the longer run, optimism is widespread. The country has had a heartening demonstration that it is possible to retreat from boom conditions without collapse into a deflationary spiral. The sta-

bilizing influences which have made this retreat orderly and moderate also provide a base for further improvement.

Reserve Requirements Reduced

After the close of business on June 21 the Federal Reserve Board announced that it was reducing the legal reserve requirements of the member banks of the Federal Reserve System in a gradual way over six weeks, June 16 to August 1. The action will release from cash reserves somewhat more than $1½ billion which becomes available to the banks to meet seasonal requirements for currency and credit, including Treasury financing, during the second half of the year. The following explanatory statement was issued:

> This action was taken in conformity with the Federal Reserve System's policy of making available the reserve funds required for the essential needs of the economy and of facilitating economic growth. The reduction will release a total of approximately $1,555,000,000 of reserves. It was made in anticipation of estimated demands on bank reserves during the summer and fall, taking account of probable private financing requirements, including the marketing of crops and replenishment of retail stocks in advance of the fall and Christmas sale seasons, as well as the Treasury's financing needs.
>
> The Board is authorized by law to fix reserve requirements within the following limits: net demand deposits, for central reserve city banks, 13 to 26 per cent; for reserve city banks, 10 to 20 per cent; for country banks, 7 to 14 per cent; on time deposits, for all member banks, 3 to 6 per cent.
>
> The last previous reduction in reserve requirements was announced on June 24, 1953. Changes in reserve requirements supply or withdraw relatively large amounts of bank reserves, even when effected on a gradual basis, as in the present action. Accordingly, such changes are comparatively infrequent. For more flexible and frequent adjustments to the credit needs of the economy the System relies chiefly upon open market operations to release or absorb reserve funds.

As the table indicates, these reductions duplicate the pattern of the cuts put in force a year ago over the period July 1-9, with the addition of a cut in the requirement against time deposits from 6 to 5 per cent.

	Feb. 1, 1951 to June 30, 1953	July 9, 1953 to June 15, 1954	Aug. 1, 1954
Against net demand deposits			
Central Reserve City banks	24%	22%	20%
Reserve City banks	20	19	18
Country banks	14	13	12
Against time deposits			
All member banks	6	6	5

The one point cut in the requirement against time deposits was made effective for country banks retroactively to June 16 and for other banks became effective on June 24. On demand deposits, the "central reserve city" banks of New York and Chicago had a one point cut effective June 24 and a second point is scheduled for July 29; for banks in other principal financial centers, classified as "reserve city" banks, a one point reduction becomes effective July 29; for "country" banks, a one point drop is set for August 1.

The cuts of June 16 and 24, taken together, released about $600 million into the market; the cuts of July 29 and August 1, timed to synchronize with a major cash borrowing operation of the Treasury, are figured to release upwards of $900 million.

Little Market Effects

The possibility of action on reserve requirements had been a common topic of discussion in market circles for months. Heavily discounted, the action had limited effect on the markets. In contrast to 1 point advances in government bonds which greeted the requirement cut of a year ago, price markups this time averaged no more than ¼ point. With the help of a rising price trend earlier in the month, government bonds during June recovered more than half of the declines experienced during May. The corporate and municipal markets continued to absorb large new offerings without much change in yield levels.

The effects in the short-term money market, normally sharp, were almost unnoticeable. The reduction on June 24 came at a point where the drain of income tax collections had forced major money market banks to borrow from the Federal Reserve. Funds released were employed to pay off borrowings. Yields on Treasury bills, a sensitive barometer of the money market, were little changed around the level of ⅝ per cent to which they had descended early in June.

Alternatives for Supplying Reserves

The Federal Reserve Board explained the reserve requirement action in terms of providing for the essential needs of the economy. For the second half of the year the banks face prospective needs for $2 to $3 billion additional funds to meet seasonal increase in currency circulation and in credit demands, and possible withdrawals of foreign funds in the form of gold. Hence $1½ billion released from legal reserves takes care of three-quarters or less of this prospective need.

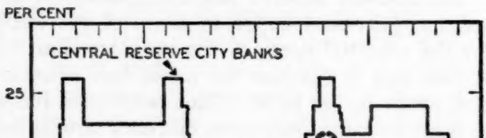
The balance of funds needed presumably will be provided by Federal Reserve purchases of government securities in the open market or by bank borrowings from the Federal Reserve. Last year the Federal Reserve released $2.6 billion during the second half, $1.2 billion by the July reserve requirement reduction and $1.4 billion by subsequent purchases of government securities in the open market. Increased bank borrowings, which provided $½ billion in the

second half of 1951 and $1 billion in the second half of 1952, were a negligible factor in the second half of last year. The present policy is one of keeping money easy and relieving the banks of needs to borrow.

The new reduction in reserve requirements represents an extension of the policy of "active ease" designed to help turn the tide of business recession. It leaves funds to be provided later in the year, and the terms on which these funds are provided – whether by open market operations or borrowings and whether cheaply or dearly – will determine how easy and cheap it is for people to borrow as the year moves on. Thus – while the wisdom of the easy money policy is open to debate – it holds true that the Federal Reserve Board remains in the driver's seat so far as the credit supply is concerned. Funds may be absorbed out of the market at any time by sales of government securities.

Another Aspect

One aspect of providing bank reserves by lowering reserve requirements is that it allows banks to invest more of their funds, and therefore affords some supporting influence to bank earnings. The accompanying chart shows the varying reserve requirement percentages under which the member banks of the Federal Reserve System have operated since 1936. The requirements in force during the first half of 1936 had been unchanged for nineteen years and were those provided in the Federal Reserve Act under an amendment adopted in 1917: against demand deposits, 13, 10 and 7 per cent for the three classes of member banks; against time deposits, 3 per cent for all member banks.



Member Bank Cash Reserve Requirements, 1936-54
(Percentages of net demand deposits and of time deposits required to be held on deposit with Federal Reserve Banks)

Discretionary powers to raise the requirement percentages were granted to the Federal Reserve Board by legislation in 1933 and 1935 as a guard against the potential inflationary influence of the dollar devaluation. The requirements were doubled in 1936-37, and, while they have been adjusted up and down many times since then, the average level has run far higher than before. The height of the requirements, in combination with prevailing cheap money policies and rising costs and taxes, has repelled investor interest in bank shares with the result that banks are frequently valued in the market for less than their liquidating value – "worth more dead than alive" as one bank stock analyst put it. Since 1939 more than 500 commercial banks have either liquidated or given up their identity by merger.

Possibilities for Reform

In view of the generally low capital ratios between bank capital accounts and liabilities, there is a public interest involved in a level of bank earnings which will close the gap between the market and book value of bank shares and enable banks to build and attract capital.

It may be noted from the chart that these latest reserve requirement changes restore the reserve requirement schedule put in force during the 1949 business recession, except that the requirement against demand deposits will be 20 instead of 22 per cent in New York and Chicago. The larger cuts for the latter cities, which have the highest requirements, narrows the spread between central reserve city and reserve city banks, a discrimination that historically had reason but now is outmoded. This spread, now reduced to 2 points, was actually eliminated for five years, 1942-47, but more generally has run between 3 and 6 points.

Many proposals have been heard since the war for changing the system of reserve requirements for banks. The New York Clearing House Association, in a study, *The Federal Reserve Re-Examined,* published a year ago, noted a tendency among these proposals to disregard the practical problems of banking and to find systems to accommodate government borrowing and spending. The study concluded:

> Any reserve requirement proposal worthy of consideration ought to be loyal to the American conception of free, competitive markets and to recognize inflating Government outlays as the primary threat to the value of money. By these tests the only recent proposal that deserves serious consideration is the uniform reserve insofar as it would involve simply a reconstruction of the existing system of requirements.

Any legislation on reserve requirements should recognize that geographical differentials are, in large degree, outmoded; that vault cash and a portion of balances with correspondents might properly be restored as legal reserve balances; that total reserve needs are excessive under the existing scale of reserve requirement percentages; and that the powers to raise reserve requirements first granted in 1933 are no longer needed.

The height of the present maximum limits on requirements is the single most objectionable feature of the present structure. Under an easier set of reserve requirements the nation's commercial banking system can be stronger, healthier, and more attractive to men and capital.

Guaranteed Annual Wages

The United Steel Workers – CIO pressed a proposal for guaranteed annual wages in their recent negotiations for a new wage contract to replace the one that expired June 30. Though the demand was not accepted by the steel companies, the topic promises to remain a live one. The Electrical Workers – CIO is urging wage guarantees on General Electric and Westinghouse, and the United Automobile Workers – CIO has determined to press the scheme on major automobile companies when contracts expire next year.

As the 1953 annual convention of UAW put the case: "The primary goal of a guaranteed annual wage plan should be to stimulate management to provide steady full-time employment, week by week, the year round." If management laid off a man, he could get paid for a full year thereafter. The CIO's *Economic Outlook* advances annual wage guarantees not only as a benefit to the employe and as an incentive to management, but as a way of conquering the evils of mass unemployment.

It was ten years ago that the USW-CIO first presented a guaranteed annual wage plan, but it is only in the past year or two, following the campaign for pension plans, that it has been made a prime objective among CIO unions. Walter Reuther flatly asserted a year ago that "the only choice remaining to management in relation to our guaranteed annual wage demand [is] not *whether* we will get a guaranteed annual wage but *how* we will get it."

Comparatively little interest has been displayed by labor leaders outside the CIO group. The railway unions, mindful of the budgetary problems of the roads, rely on established seniority systems to protect the income of employes with the longest service records. A. F. of L. leaders have been skeptical. Interviewed by the *U. S. News and World Report* last November, George Meany of the A. F. of L. stated:

There is a demand in certain trades for a guaranteed annual wage. We have not pressed that demand in the A. F. of L. We may come to it someday — I don't know. But we know without question that it's almost an impossibility under our economic system to have a guaranteed annual wage in certain types of business . . . there are millions of workers with corporations that couldn't possibly make such a guarantee.

Needs for Flexibility

There are all kinds of people with all kinds of ideas as to what sort of a job is attractive. Those most concerned with tenure look for jobs which have the most security to offer – in teaching or government offices, in financial institutions, in stabler industries. Others willingly pass up job security and look for fatter pay envelopes when they are working to tide them over between jobs. Some accept or seek routine; others accept or seek periods of layoff and changing employments. The man who holds a steady job maintains the essential machinery of daily life. The man willing to move about provides a fluid labor supply which can be drawn upon to harvest crops; to build homes, schools, and public works; and to man extra shifts when surges of increased demand bring pressures for added production on the industries.

Business fluctuates and all prudent people plan to accumulate savings when times are prosperous. Unemployment insurance provides assistance during layoffs. Some trade unions offer aids to employes out of work. Employers follow various practices of granting severance pay to ease the blow of job termination. Assuredly, there is no objection to anyone's being as generous as he can afford to the employe separated from his job through no fault of his own. To make the employer liable, on job termination or layoff, for as much as a year's pay, is a vastly different matter. Such a liability would certainly make a man think twice before hiring anybody or going into business.

Practical Considerations

Anyone who undertakes to pay people whether or not he has work for them certainly would have, as the CIO maintains, an incentive to keep up sales and production. The employer, however, already has strong incentives to do so, since the livelihood of the enterprise depends on producing and selling. Beyond that, employers make efforts so far as they can to steady out the swings in production and sales. Stable production means the most efficient use of machinery and manpower, lower unemployment insurance taxes, lower outlays for hiring, training, and overtime, better employe morale, and favorable community relations. Using a fixed labor force

can be the most profitable way of carrying on a business.

On the other hand, a fixed labor force is often completely out of question. A local cannery takes on people for a few weeks each season. If a full year's wages had to be offered, canned goods would be exorbitantly expensive and the housewife would have to do her own canning; the cannery, and the work opportunities it offers, would disappear. The home-builder, shipyard, or turnpike contractor takes on men for a particular job. The automobile manufacturer is at the mercy of the buyer, not only for automobiles in general but for his models in particular. He has no power to compel people to buy his cars so that he will have enough money to make good on a wage guarantee. The problem in steel — indeed in manifold other industries — is one of extreme fluctuation in the total market. The producer will crack up if he does not have flexibility to ride with the tide.

Labor costs are the largest single item of expense in industry. Balancing the budget of a business requires that payrolls shrink when sales volume falls off, just as an individual, a church, a school, a lodge, or a trade union has to be prepared to adjust spending to income. If it is not done, cash and credit run out pretty fast. A community is better off to have a plant operating at 60 per cent of capacity than to have one shut down because working capital was dissipated.

An Old Idea

The idea of guaranteeing work and wages goes back sixty years or more, though practical difficulties have stood in the way of widespread adoption. One of the earliest plans was a union-negotiated agreement in the wallpaper industry, which guaranteed 12 months' employment each year and lasted, with changes, from 1894 to 1930. More often guarantees have been voluntary arrangements initiated by the employer. When they have become too expensive, they have been dropped. The number of plans in force grew during the depression of the 'thirties even though some were abandoned because of the financial burden and others because of union opposition or the start of federal and state social security programs. According to the most recent Bureau of Labor Statistics study of the subject, in 1946, only about 60,000 employes were covered under guaranteed wage plans of one sort or another.

Procter & Gamble has a system, noncontractual, which assures an annual minimum of 48 weeks' *employment* for employes who have been on the rolls for two years or more. The best known so-called guaranteed *wage* plan is that operated by the meat packing firm, Geo. A. Hormel & Company, at its main plant in Austin, Minnesota. A similar plan at its Chicago plant was dropped during World War II because of employe opposition.

The Hormel Plan

The Hormel plan, developed into its present form over twenty-three years, guarantees 52 equal paychecks each year to all regular employes. The employe accepts fluctuations in his working hours, ordinarily without overtime bonuses, and changing job assignments at the convenience of the employer.

In reference to its guarantee, the Company recognizes inherent limitations:

> Certainly our Company is wholly unable to redeem the money consideration in such a guarantee unless we can keep our people actually and profitably employed. The entire asset value of our Company, cashing everything we own, would only be sufficient to redeem a ten months' guarantee . . . So, when using the phrase "guaranteed annual wage," we must ask the question — guaranteed by what? The only guarantee we know of is the ability of management to manage, coupled with willingness of workers to work. If either fails, then the guarantee fails.

The USW Plan

So far as is known, no one has had the temerity to install a full-blown guaranteed wage system in industry. The Steel Workers' proposal is watered down to make some approach to practicability. The employer would pay 4 per cent of payrolls into a trust fund from which payments supplemental to regular unemployment compensation would be made. Employes would become eligible for the benefits after two years' employment and would be entitled to 80 per cent of normal full-time wages for as much as a year after layoff — provided of course the trust fund had not been exhausted.

Some other CIO sponsored plans would have employers give 100 per cent of normal full-time wages, for periods graduated according to length of service, and upon certification of a joint union-management board.

Unemployment Compensation

We already have a federal-state unemployment compensation system, financed by employers through a payroll tax, and with accumulated reserves of $9½ billion. The guaranteed wage schemes recently set forth by the CIO would ask individual employers to add a second generous layer of unemployment benefits, giving the laid-off employe 80 to 100 per cent of full-time weekly wages. As a matter of fact, there is doubt as to the legality of the CIO's supplemen-

tation scheme. Milton O. Loysen, Executive Director, Division of Employment, New York State Department of Labor, points out that:

> Wages paid to an employee under a guaranteed wage plan are regarded as taxable wages. Workers who receive such wage payments when they are laid off are not regarded as totally unemployed and are therefore not eligible for unemployment benefits.

Union leaders have frequently expressed dissatisfaction with the size and duration of present unemployment benefits, and complained of the strictness of state unemployment boards, for example, in denying or delaying benefits to men who have voluntarily quit. They want payments liberalized and to have a hand in deciding who is entitled to the benefits and for how long. President Eisenhower has recommended federal and state action to provide wider coverage, larger benefits, and extended duration of benefits. He has not approved the suggestions that unemployment compensation be administered less carefully, or that people be paid something near full wages when unemployed. The unemployment reserves, loosely administered, could be dissipated in advance of real need.

The guaranteed annual wage differs from unemployment compensation in size and duration of benefits. Indeed, it is the *reductio ad absurdum* of unemployment compensation. To talk of full pay for idle men is to disregard the fact that leisure has a value to people. The CIO speaks of incentives to business to maintain employment opportunities. But what, if anything, is left of the incentive to work? Where is the production to finance the benefits and to give value to the money so freely spread around?

The Trust Fund Solution

Many employers have superimposed private pension plans on the federal old-age benefits system. The situation with unemployment compensation differs in vital respects. It is ordinarily a simple matter to prove when a man passes a given birthday, and qualifies for a pension. The payment of unemployment compensation demands a judicious process of deciding if a man actually is unemployed, really is looking for a job, and would take one if offered. Further, the potential cost of the guaranteed wage is less predictable and could be vastly greater than any pension plan. Union officials have hinted that if guaranteed wage trust funds approached exhaustion, they would expect employers to raise the ante and keep the payments going.

The idea of a guaranteed wage trust fund, built up by employer contributions related percentagewise to payrolls, spares risk to the enterprise provided the contribution rate is bearable and the employes clearly understand that the payments stop when the funds run out. This would be no guaranteed annual wage but a contingency reserve fund built up by the employer for the benefit of employes. If we assume that an employer is able to absorb an increase in payroll cost, it is a question whether many employes might not prefer to take a pay increase and prepare for emergencies as their personal circumstances appear to require.

Somebody has to bear the cost. The employe can take a lesser wage or the consumer can be asked to pay a higher price. If employes successfully demand higher wages, and wage guarantees too, the natural consequence would be another turn of inflation.

It would take a great many years to build up guaranteed wage trust funds big enough to support — through a depression — the current $125 billion wage bill of all U.S. corporations. Trust funds aggregating as much as $31 billion would be exhausted by a one-year 25 per cent slump. In short, the cost would be exorbitant for an inadequate reserve.

The Miracle of Perpetual Prosperity

The advocate of wage guarantees nevertheless can argue that if every employer were forced to keep on paying employes whether they were working or not, the national income would be maintained, sales volume for business collectively would hold up, and hence there would not have to be any layoffs. Thus we would have achieved the miracle of perpetual prosperity.

The unpleasant question recurs, however, as to who would want to work when he had the option to play. It is not difficult to relax work effort sufficiently to qualify for discharge or layoff. As the late Senator Arthur Vandenberg said when the dangers in excessive readjustment benefits for veterans were being debated in 1945: "We are not a nation of malingerers, but we are notorious bargain hunters."

Lord Beveridge, noted advocate of "cradle to grave" security in the United Kingdom, has recognized the frailties of men as well as the needs of men to work for a living. In his report, *Social Insurance and Allied Services*, published in 1942, he stated:

> The danger of providing benefits, which are both adequate in amount and indefinite in duration, is that men, as creatures who adapt themselves to circumstances, may settle down to them . . . The correlative of the State's undertaking to insure adequate benefits for unavoidable interruption of earnings, however long, is enforcement of the citizen's obligation to seek and accept all reason-

able opportunities of work, to cooperate in measures designed to save him from habituation to idleness. . . .

Even if everyone went to work whenever and wherever directed to do so by his employer or his union, we would not necessarily avoid drops in business. People are constantly varying the pace and directions of their spending. To make the scheme ironclad, the consumer or the government would have to guarantee to take the products of industry off the market. The necessities for compulsions and regimentation may have been in mind when the *United Mine Workers Journal* said of the guaranteed wage scheme:

The whole program presages the junking of the American way of life and the forfeiture of our industrial liberties in return for a promised security which cannot be guaranteed—a bureaucratic rule over our whole scheme of life.

It is indeed the authoritarian state that has the most to give in economic stability, the most to take away in the citizen's choice of work and enjoyments.

Freedoms of Choice

Quite naturally and desirably, the employe wishes to keep his freedom of choice to spend and save. It is the freedom of the consumer to change his mind and change his buying habits and product preferences that keeps each businessman on his toes, striving to improve the productivity of his work force, and attempting to beat out his competitor and preserve and expand his markets. These efforts do not always succeed. Progressive business is a matter of trial and error, and unanticipated events can wreck the best-laid plans. The employer has to be able to adjust his payroll to his circumstances.

The employe in turn has to be prepared, if need be, to adjust his scale of life and seek another employment. These are prices we pay for freedoms to change jobs, to buy what and where we please, and to gain the benefits of a dynamic competitive society.

It is the very height of our living standard – the prolific enjoyments we have beyond the bare essentials of life, the freedom we have to save or spend, the things we have stocked up, the liberality of choices on the market, and the numbers of competitive products and producers—that makes prediction of demand the challenging difficulty that it is for the merchant and manufacturer.

We want stability and change, each in reasonable degree and each without sacrificing the other. The power to determine the course of employment does not depend solely on business but on the people and government collectively and their reactions to the events of the day. Many resources are available to combat trade depression, including the fiscal powers of the Government, the flexible credit policies of the Federal Reserve, and, last but not least, the resourcefulness and adjustability of the individual. As A. D. H. Kaplan concluded from his study of wage guarantees for the Brookings Institution:

A young and growing nation is marked by confidence in the ability of its individuals to create opportunities for expanding output and improving economic levels. What it seeks mainly to protect is the sporting chance — the freedom of opportunity to make the most of one's abilities . . . The general guarantee of jobs and payrolls implies the general acceptance of fixed placements in a regulated economy. A basic decision to be made, before widespread guarantees are instituted in any but the already stable consumer lines, concerns the kind of economic order we are prepared to accept in order to ensure existing jobs and payrolls.

Big Buyers in U.S. Industry

Last year the country's 100 largest manufacturing companies paid out $48 billion for goods and services, exclusive of wages and salaries to their own employes. For most companies such outlays set new high records, far surpassing the peaks reached during World War II. The purchases of this group of companies alone were, by comparison, over half again as large as the U.S. Defense Department's current budget excluding payrolls for military personnel. Truly the purchasing agents of American industry have come to be the world's biggest buyers.

The purchases of these 100 industrial organizations extend into every market. They include the leading processors of the food raised on the nation's farms and ranches — the cereals, livestock, and dairy products — as well as the tobacco, cotton, and wool. From the mines they get coal and ores bearing iron, copper, aluminum, and other metals, while from the oil fields they take petroleum for refining and distribution through a network of service stations spread across the land. From the forests they make lumber, paper, plastics, and synthetic textiles. A great steel industry supplies the basic raw materials to many other lines, while a complex chemical industry draws its materials from the farms, mines, forests, oil fields, ocean water, and even the air.

Heavy imports by these companies support the economies of foreign countries on which we depend for essential raw products — rubber, wood pulp, petroleum, copper, tin, iron ore, and other strategic minerals. Payments for our imports provide the foreign countries, in turn, with dollar balances with which to buy American

goods. Ninety-two of these companies have branch plants or subsidiaries abroad, most commonly in Canada, and 28 of them have such agencies in a half-dozen or more foreign countries.

Their purchases of electric power, gas, and telephone service are important supports to the public utility systems. Their freight and passenger traffic helps to keep busy the railroads, airlines, and motor truckers. Their outlays on national and local advertising are a mainstay of the revenues of newspapers, magazines, radio and television. Their tax remittances swell the coffers of federal, state, municipal, and local treasuries. Since the war their vast capital expenditure programs have made countless jobs in the fields of engineering, construction, building materials, machinery and equipment.

Finally, they are buyers of countless items of manufactured and semi-finished goods from A to Z. In short, their payments constitute such strong supporting factors to the income of individuals and other companies throughout our economy, as well as government itself, that an old political axiom might be paraphrased, "As these companies go, so goes the nation."

The 100 Largest Manufacturers

The accompanying list of the 100 largest manufacturing corporations in the U.S. is based on total assets reported at the end of the 1953 calendar or fiscal year. A figure of total assets is, of course, only one of several useful measures of the size of business enterprises. Various others that might be used – depending on the viewpoint – are net assets or net worth, total sales, value added by manufacture, number of employes, payrolls, factory floor space, plant and equipment valuation, taxes paid, net income, dividends distributed, and number of customers served.

Total assets reported by these manufacturers at the end of 1953 range from $215 million up to a high of over $5 billion for the Standard Oil Company (New Jersey). When United States Steel was organized in 1901, it was the only company with assets exceeding $1 billion in this or any other country. Standard of Jersey and General Motors moved above that level in the 1920s. Since that time there has been such an amazing growth of American industry, with large-scale organizations for low-cost mass production becoming so commonplace, that by the end of 1953 no less than 16 manufacturers reported assets over $1 billion. In addition the Ford Motor Company, as noted in the table footnote, assets of $1,758 million on December 31, 1952.

Total Assets, 100 Largest Manufacturing Corporations, as Reported at End of 1953 (In Millions)

Allied Chem. & Dye Cp.	$703	Kennecott Copper Corp.	$748
Allis-Chalmers Mfg. Co.	402	Liggett & Myers Tob. Co.	497
Aluminum Co. of Amer.	906	Lockheed Aircraft Corp.	260
Amer. Can Co.	432	Mathieson Chem. Cp.‡	260
Amer. Cyanamid Co.	443	Monsanto Chemical Co.	362
Amer. Smelt. & Ref. Co.	364	Philip Morris & Co.	255
Amer. Tobacco Co.	801	Nash-Kelvinator Corp.*	238
Amer. Viscose Corp.	268	Natl. Dairy Prod. Corp.	425
Anaconda Cop. Min. Co.	836	Natl. Distillers Prod. Cp.	422
Armco Steel Corp.	465	Natl. Lead Co.	295
Armour & Co.	474	Natl. Steel Corp.	528
Atlantic Refining Co.	571	Ohio Oil Co.	318
Avco Mfg. Corp.	228	Owens-Illinois Glass Co.	222
Bendix Aviation Corp.	329	Phelps Dodge Corp.	345
Bethlehem Steel Corp.	1,783	Phillips Petroleum Co.	1,039
Boeing Airplane Co.	232	Pitts. Plate Glass Co.	442
Borden Co.	296	Procter & Gamble Co.	444
Borg-Warner Corp.	260	Pullman Inc.	229
Burlington Mills Corp.	301	Pure Oil Co.	383
Caterpillar Tractor Co.	261	Radio Corp. of Amer.	494
Celanese Corp. of Amer.	322	Republic Steel Corp.	741
Chrysler Corp.	898	R. J. Reynolds Tob. Co.	599
Cities Service Co.	1,103	Reynolds Metals Co.	432
Coca-Cola Co.	236	Richfield Oil Corp.	262
Colo. Fuel & Iron Corp.	215	Schenley Industries	414
Continental Can Co.	321	Shell Oil Co.	985
Continental Oil Co.	409	Sinclair Oil Corp.	1,141
Crown Zellerbach Corp.	248	Singer Mfg. Co.	405
Deere & Co.	481	Skelly Oil Co.	275
Distillers Cp. – Seagrams	458	Socony-Vacuum Oil Co.	2,154
Douglas Aircraft Co.	274	Sperry Corporation	259
Dow Chemical Co.	769	Stand. Oil Co. of Calif.	1,535
E. I. duPont de N. & Co.	1,846	Stand. Oil Co. (Ind.)	2,036
Eastman Kodak Co.	524	Stand. Oil Co. (N. J.)	5,372
Firestone Tire&Rub. Co.	567	Stand. Oil Co. (Ohio)	296
Food Mach. & Chem. Cp.	223	J. P. Stevens & Co.	257
Gen. Amer. Trans. Cp.	226	Sun Oil Co.	469
Gen. Electric Co.	1,697	Swift & Co.	533
Gen. Foods Corp.	353	Texas Company	1,805
Gen. Motors Corp.	4,405	Tide Water Assoc. Oil Co.	862
B. F. Goodrich Co.	437	Union Carbide & Car. Cp.	1,191
Goodyear Tire&Rub. Co.	666	Union Oil Co. of Calif.	476
Gulf Oil Corp.	1,766	United Aircraft Corp.	298
Inland Steel Co.	433	U. S. Rubber Co.	489
Inter. Bus. Mach. Corp.	520	U. S. Steel Corp.	3,248
Inter. Harvester Co.	973	Western Electric Co.	877
Inter. Paper Co.	507	Westinghouse Elec. Cp.	1,265
Jones & Laughlin Stl. Cp.	579	Weyerhaeuser Timber Co.	323
Kaiser Alum.&Chem. Cp.	320	Wheeling Steel Corp.	234
Kaiser Steel Corp.	267	Youngstown Sh.&Tube Co.	514

Total assets are shown after deducting reserves for depreciation. Table does not include Ford Motor Company, with total assets of $1,758 million on Dec. 31, 1952, or United Fruit Company, with total assets of $386 million on Dec. 31, 1953, which companies do not publish detailed income accounts. ‡ To merge with Olin Industries, Inc., as Olin Mathieson Chemical Corp. * Merged with Hudson Motor Car Co. as American Motors Corp.

For the 100 largest manufacturers as a group the combined assets as given in the table aggregate $69.8 billion. Of this total, $31.6 billion is property – land, plant, and equipment. The book values as carried on the balance sheets, after deducting reserves for depreciation and depletion, are in most cases far below present-day replacement costs. The balance of $38.2 billion is made up largely of current assets – cash, marketable securities, inventories, and receivables.

These corporations last year employed a total of approximately 4,730,000 people. Their total assets thus represent an investment of around $15,000 per employe. Among different major industries, however, the investment per worker varies widely, as shown in the accompanying table. It averages about $4,500 for the largest aircraft companies, $7,000 for tires, $8,000 for electrical equipment and for automobiles and parts,

and $9,000 for food products. It rises to $11,000 for machinery, $12,000 for steel, $13,000 for textiles, $18,000 for nonferrous metals, and $20,000 for chemicals. It exceeds $40,000 per employe in petroleum producing and refining, which requires heavy investment in equipment that is highly mechanized and needs relatively little labor; also in distilling, where a large proportion of total assets is invested in inventories of liquors stored in bonded warehouses; and in tobacco products, where large stocks of leaf tobacco of various types and years are held for curing and blending.

Average Total Assets per Employe of the 100 Largest Manufacturing Corporations in the U.S. at End of 1953

No. of Cos.	Industry Groups	Assets per Employe	Total Assets (Millions)	Total Employes (Thousands)
4	Aircraft and parts	$ 4,500	$ 1,064	239
4	Tires, rubber products	7,100	2,159	302
5	Autos and parts	7,900	6,125	780
4	Elec. equip., radio & tv.	8,400	4,333	516
5	Food products	8,600	2,081	241
6	Machinery	11,200	2,846	255
11	Iron and steel	12,300	9,007	730
4	Textile products	13,000	1,148	88
8	Nonferrous metals	18,300	4,246	232
7	Chemical products	20,300	5,574	274
20	Petroleum prod. & ref.	41,000	22,752	555
3	Distilling	44,600	1,294	29
4	Tobacco products	47,800	2,152	45
15	Other manufacturing	11,300	5,000	444
100	Total manufacturing	$14,800	$69,781	4,730

Shareholders' equity in these companies, made up of the book value of preferred and common stock plus surplus account, aggregates $44.8 billion. Ownership is widely distributed among individual and institutional investors throughout the United States and foreign countries. Fifty-four of these companies actually have more shareholders than employes. Thirty-one have over 50,000 registered shareholders each. General Motors alone had 494,632 at the year-end. Large numbers of employes are shareholders also.

For the 100 companies combined the number of registered shareholders approximates 5,665,000. That total includes considerable duplication as a result of the same investors holding shares in two or more companies in the group. On the other hand, the number of shareholders of record for any particular company fails to measure fully the breadth of ownership, for the reason that some of the registered holders are banks, investment trusts, nominees, and so on, acting for large numbers of investors having beneficial interests. Substantial blocks of the stock of numerous big companies are held in trust for their own employes' profit sharing and retirement funds.

Distribution of Income

Last year the 100 largest manufacturing organizations had total receipts aggregating $91.4 billion from sales and other operations. That is 5.3 times the total in prewar 1939, reflecting not only their success in winning more patronage and in developing new products through their research laboratories, but also the effects of price inflation and of some consolidations. Last year twenty-four companies each reported sales exceeding $1 billion, in contrast with 1939 when only a single company attained that figure.

The distribution of the companies' income last year is summarized in the accompanying table and chart. Direct wages, salaries, and labor benefits (pensions, insurance, paid vacations, etc.) amounted to approximately $22.7 billion or 24.9 cents per sales dollar. Such employment costs represented an average of $4,800 per employe.

Disposition of Receipts by the 100 Largest U.S. Manufacturing Companies in the Year 1953

	Total (Millions)	% of Receipts
Total receipts from sales and other operations	$91,409	100.0
Costs:		
Costs of goods and services purchased from others, etc.	47,884	52.4
Wages, salaries, and labor benefits*	22,740	24.9
Provision for depreciation and depletion	3,665	4.0
Interest paid	354	0.4
Federal income and excess profits taxes	5.440	5.9
Other federal, state, local & foreign taxes†	5,649	6.2
Total costs of operations	85,732	93.8
Net income	5,677	6.2
Preferred and common dividends paid	2,977	3.3
Retained in the business	$ 2,700	2.9

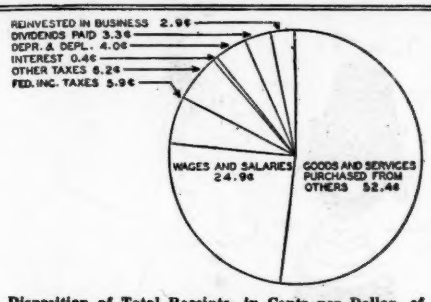
*Partly estimated, on basis of payrolls reported by companies representing 90 per cent of the total employment of the group.
†Tax figures charged as costs are exclusive of sales and excise taxes of $2,753 million on gasoline and oil collected by the 20 petroleum companies, and of certain excises collected by other companies.

Federal income and excess profits taxes came to $5.4 billion. Other federal, state, local, and foreign taxes were $5.6 billion. The total direct taxes of $11.1 billion represented an average of 12.1 cents for every dollar of sales and were almost half as large as payrolls.

Charges for depreciation and depletion of properties and equipment amounted to $3.7 billion, or 4.0 cents per sales dollar. Interest paid amounted to $354 million or only 4/10 of 1 per cent of sales. This includes interest on short-term loans, and on long-term debt which 78 companies in the group had outstanding in the amount of $9.5 billion.

After deducting all of the above charges from total costs, the residual and largest item of all is $47.9 billion representing – as stated at the outset of this review – the cost of goods and services purchased from others, including miscellaneous charges not itemized. Such purchases averaged about $160 million for every business day throughout the year, and took 52.4 cents out of every dollar of receipts.

Net income after taxes totaled $5.7 billion and represented an average profit margin of 6.2 cents



Disposition of Total Receipts, in Cents per Dollar, of the 100 Largest Manufacturing Corporations in 1953

per sales dollar. Cash dividends distributed to the common and preferred shareholders amounted to $3.0 billion or 3.3 cents per dollar of sales.

The remaining earnings amounting to $2.7 billion or 2.9 cents per sales dollar were retained in the business to help pay for the capital expenditures and to build up current assets. Outlays on plant expansion and modernization last year totaled $6.4 billion, against depreciation charges of $3.7 billion, leaving an increase of $2.7 billion in net property account. In addition, working assets were increased by $1.8 billion, making the increase in total assets $4.5 billion.

To finance this total required not only the entire retained income of $2.7 billion but also an increase in indebtedness, current or long-term, of $1.6 billion, plus $200 million from new stock issues and surplus adjustments.

Thus, although the 100 biggest industrial businesses reported that last year they took in a new high record of over $91 billion, and earned over $5 billion after taxes, they paid out so much for goods and services purchased, other operating expenses, capital outlays, and inventory accumulation that they ended up having to borrow more money.

Secret of U.S. Economic Progress

The record last year of the 100 top producers is typical of great numbers of other companies ranking below them in size but also carrying on relatively large-scale operations at narrow profit margins. So many American companies have grown big in manufacturing and other lines of business over the years that now over 33,000 own assets of $1,000,000 and upwards. Moreover, the record is typical of much "small business" as well.

A clear and timely explanation of the secret of this country's exceptional economic progress was given in an address last month before the International Labor Conference, meeting in Geneva, Switzerland, by William L. McGrath, United States employer delegate. The speaker, who is president of the Williamson Heater Company of Cincinnati, Ohio, made what was spoken of there as the first successful attempt in many years to get across to an ILO gathering the positive side of U.S. industry's economic philosophy.

Following are a few excerpts from Mr. McGrath's address in which he emphasized the U.S. objective of technological development as "assuring better things to more people at lower costs" —

> In the United States the major share of our business and our employment is occupied with making things that people want, rather than what they actually have to have. We have learned that there is no limit to human desires, and that upon them can be built a limitless volume of production, jobs and payrolls.
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> This did not happen overnight. Originally the United States was an under-developed country. Less than 100 years ago, a large share of our people still lived in one-room log cabins. What took place in our country since then can take place now in nations whose economy is today in transition from subsistence farming to industrial production.
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> What happened was as we filled our basic needs and began to make the things that people wanted above their needs, that we began to realize the benefits of operating under the free competitive system. . . .
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> Under the spur of competition, manufacturers in the United States awakened to the fact that it is the customer, not the manufacturer, who determines the market — and that the place to start is with the customer. . . .
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> What we have learned in the United States is that highly satisfactory profits can be earned on low profit margins. You don't make money, in a competitive economy, by keeping the price up and making a big margin of profit per unit of sale. You make more money by cutting your price to where you have a small margin of profit, but increasing your volume of sales. In short, the better you do for the customer, the better you do for yourself. . . .
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> Every day somebody invents something new or better, that people want. Can it be sold? The answer is probably "yes", if you can get the price down. Well, you can get the price down, if you can create enough demand so that you can use the techniques of volume production.
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> Take television, as an example. When television first came out in the United States, a set cost over $300. But merchandising and advertising went to work on the public imagination until hundreds of thousands of people *wanted* television. That made possible mass production on a competitive basis. The result is that today you can get a better television set for about $175. When television sets cost $300, or more they made only a small number per year and the industry employed a mere handful of people. Today the industry manufactures about 3,000,000 sets a year and employs nearly 400,000 people.
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> That is an illustration of how *persuading people to want something* — something, mind you, that they didn't really *have* to have — has added to productivity and employment, as well as the standard of living.
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> You may say that the United States has television because it is richer. I say that the United States is richer because it developed and sold television. It created a great industry out of an invention and human desires.

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